

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name South County Sewer & Water	County Kalamazoo
Fiscal Year End 3-31-07	Opinion Date 9-14-07	Date Audit Report Submitted to State 9-28-07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Seber Tans, PLC		Telephone Number 269-343-8180	
Street Address 555 W. Crosstown Parkway, Suite 304		City Kalamazoo	State MI
		Zip 49008	
Authorizing CPA Signature 	Printed Name Matthew A. Howard		License Number 1101013253

SOUTH COUNTY SEWER AND WATER AUTHORITY
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
For the Years Ended March 31, 2007 and 2006

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SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
South County Sewer and Water Authority

We have audited the accompanying financial statements of South County Sewer and Water Authority as of and for the years ended March 31, 2007 and 2006 as listed in the table of contents. These financial statements are the responsibility of the South County Sewer and Water Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of South County Sewer and Water Authority at March 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis (identified in the table of contents) is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We applied certain limited procedures consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying financial information listed as supplemental information in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the South County Sewer and Water Authority. The supplemental information has been subjected to the auditing procedures applied in the audits of financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.


Seber Tans, PLC
Kalamazoo, Michigan

September 14, 2007

SOUTH COUNTY SEWER AND WATER AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS

Using This Annual Report

This annual report consists of the Statements of Net Assets, the Statements of Revenues, Expenses and Changes in Net Assets, and the Statements of Cash Flows. Along with the footnotes, they provide detailed financial information concerning the Authority. This section, Management's Discussion and Analysis, is intended to provide an overview of the Authority's financial condition, results of operations, and other key information.

Financial Overview

In analyzing the Authority's financial position, it is important to recognize the mission of the Authority. From a financial perspective, the Authority's core objective is to manage the long-term costs of providing sanitary sewer service to the businesses and residents (collectively the Users) of participating Municipalities. The Authority acts as an agent of the participating Municipalities. The quarterly amounts charged to Users approximate the operating costs incurred by the Authority in providing sanitary sewer service. In addition to the long-term operating costs of providing sanitary sewer service, the Authority is responsible for the repayment of bonds and other debt obligations incurred to finance the construction of the sanitary sewer system and used to purchase long-term sewer capacity. Charges for capital costs are generally made to the benefiting party, the land owner and/or developer, at the time the infrastructure is constructed.

A significant non-cash expense of the Authority is depreciation. Depreciation expense represents costs associated with the construction of the sanitary sewer system that are financed by long-term debt obligations and assessments on the Users' properties. Principal payments from assessments and principal payments on long-term financing are not reflected as revenues or expenses of the Authority. For budgeting purposes and for setting user rates, management does not consider depreciation expense.

	2007	2006
Total operating expenses	\$ 355,678	\$ 359,200
Less depreciation and amortization	(198,500)	(186,595)
Operating expenses, net of depreciation and amortization	157,178	172,605
Users (expressed as units)	566	557
Annual cost per Unit	\$ 278	\$ 309
Monthly cost per Unit	\$ 23	\$ 26

The Authority's costs of operating are primarily affected by treatment charges from the City of Kalamazoo and the costs of services, both contracted and employed personnel. The sanitary sewer system covers a geographic area of approximately 5 square miles, including 15 miles of pipeline. It is envisioned that approximately 50 new users will connect to the sewer system over the next ten years. As new users connect to the sanitary sewer system, it is anticipated that the cost per user will decrease.

The Authority's net assets decreased \$85,000 in 2007 and increased \$326,000 in 2006. In 2007 there were no major extensions of public sewer as compared to 2006 with contributed capital from special assessments and connection fee contracts. The authority recognized contributed capital of \$97,600 and \$497,800 for 2007 and 2006, respectively.

**SOUTH COUNTY SEWER AND WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

	<u>2007</u>	<u>2006</u>	<u>% Change</u>
Capital assets	\$ 6,664,709	\$ 6,863,209	-2.9
Other assets	<u>3,851,685</u>	<u>4,090,933</u>	-5.8
Total assets	10,516,394	10,954,142	-4.0
Long-term liabilities	4,108,669	4,450,318	-7.7
Other liabilities	<u>441,163</u>	<u>452,331</u>	-2.5
Total liabilities	4,549,832	4,902,649	-7.2
Net assets:			
Invested in capital assets net of related debt	2,158,612	2,012,930	7.2
Restricted assets	3,745,305	4,009,484	-6.6
Unrestricted assets	<u>62,645</u>	<u>29,079</u>	115.4
Total net assets	<u>\$ 5,966,562</u>	<u>\$ 6,051,493</u>	-1.4

Restricted net assets represent the total of all assets restricted for the repayment of bond obligations and for future capital improvements. Debt obligations payable exceeded the total restricted net assets of the Authority by approximately \$730,000 and \$780,000 at March 31, 2007 and 2006. This shortfall in assets available to repay the debt results from a number of factors: (1) The Users were originally assessed 80% of the estimated construction cost for the sanitary sewer. (2) As is typical, users were charged a lower initial cost per user in anticipation of normal future growth over time. (3) One User comprising 26% of the total assessment was granted a reduction of \$468,030 from the amount the User was originally assessed. (4) The growth rate anticipated at the time of construction was 10 new units (homes) per year; the growth rate the system has experienced continues to average 9 new units per year. Over time it is anticipated that the expected average growth rate will be met.

The Authority's ability to manage the repayment of bonded debt at a reasonable cost to the Users is a key objective of Management. Management semi-annually reviews the growth rate and estimates future cash flows, and to the extent necessary, Management has implemented a debt service charge for each User on the system. Management annually recommends adjustments to the debt service charge based on a number of factors such as the number of new connection fees, interest rates earned on investments, and the rate at which assessment and connection fee contracts are prepaid. The ultimate cost to the Users will depend chiefly on these three factors.

**SOUTH COUNTY SEWER AND WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

	2007	2006	% Change
Operating revenue	\$ 170,589	\$ 183,594	-7.1
Operating costs	<u>355,678</u>	<u>359,200</u>	-1.0
Net loss from operations	(185,089)	(175,606)	-5.4
Net non-operating revenue	<u>2,559</u>	<u>4,081</u>	-37.3
Net loss	<u>\$ (182,530)</u>	<u>\$ (171,525)</u>	-6.4

Operating revenues for 2007 decreased as compared to 2006 due to a one-time charge in 2006 necessitated by the regional treatment system implementing a "true up" charge. Future true-up charges are anticipated every two-years, however there is no prediction method available to determine what these amounts may be. There was a slight decrease in operating costs in 2007, again reflective of the 2006 true-up charge within the 2006 expenses. There was no significant change in net non-operating revenues. The Authority continued to have a significant negative net interest margin. The negative interest margin amounted to \$33,000 and \$32,000 for 2007 and 2006, respectively. The negative interest margin results primarily from an excess of debt payable as compared to assessments receivable plus investments. Management reviews the cost effectiveness of redeeming or refunding bonds on an annual basis.

As described earlier, the bonds payable exceeded interest bearing assets restricted for payment of bonds by approximately \$730,000 and \$780,000 at March 31, 2007 and 2006, respectively. Also as described previously, the primary sources available to the Authority to reduce this negative margin are connection fees from User growth (new customers) and from debt service fees charged to all Users. The Authority Board closely monitors the debt requirements and each year makes recommendations to the participating municipalities for adjustments to the debt service fee as needed to maintain long-term surplus cash flow for debt repayment. The participating municipalities have, to date, adjusted debt service fees according to the recommendations.

Capital Asset and Debt Administration

In fiscal 2007, the Authority had no major sewer extensions and issued no new debt.

In fiscal 2006, the Authority partnered with Pavilion Township and implemented a sanitary sewer project along Sprinkle Road in Pavilion Township. The project cost approximately \$599,000 and was financed by a combination of assessments, utilization of restricted cash, and borrowings.

Restricted funds on hand	\$ 170,000
Long-term borrowings from Pavilion Township Sewer Fund	213,000
Long-term borrowings under Township of Pavillion Act 99 Installment Purchase Agreement	<u>216,000</u>
	<u>\$ 599,000</u>

The Authority did not incur repairs to the sanitary sewer in both 2007 and 2006 that extended the life expectancy of the system or increased the Authority's ability to generate revenues.

SOUTH COUNTY SEWER AND WATER AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS

Economic Factors and Next Year's Rates

Each year, the Authority monitors its cash flow for operating expenses and makes recommendations to the participating municipalities for rate increases necessary to fund operations and maintenance. It is anticipated that User growth and cost efficiency measures by Management will minimize the effect of future operating cost increases over the upcoming year.

A recent rate increase from the regional treatment system of 21.15% plus unanticipated pump repairs to the system in both 2007 and 2006, prompted the Authority to recommend a 10% user fee increase scheduled for October 1, 2007 implementation.

Contacting the Authority's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact Rich Pierson, Director, or Cindy Chapman, Assistant Director, South County Sewer & Water Authority, at 269-321-8925.

SOUTH COUNTY SEWER AND WATER AUTHORITY
STATEMENTS OF NET ASSETS
March 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 75,008	\$ 47,577
Contracts receivable from municipalities, no allowance for doubtful accounts	240,000	222,000
Other contracts receivable, no allowance for doubtful accounts	<u>20,000</u>	<u>25,000</u>
TOTAL CURRENT ASSETS	<u>335,008</u>	<u>294,577</u>
OTHER ASSETS		
Contracts receivable, excluding current portion	1,989,760	2,137,328
Other contracts receivable, excluding current portion	180,411	166,984
Bond issue discount, net of amortization	31,372	33,872
Restricted cash and investments	<u>1,315,134</u>	<u>1,458,172</u>
TOTAL OTHER ASSETS	<u>3,516,677</u>	<u>3,796,356</u>
PROPERTY AND EQUIPMENT		
Fixed assets, net of accumulated depreciation of \$1,196,831 and \$998,331	<u>6,664,709</u>	<u>6,863,209</u>
TOTAL ASSETS	<u><u>\$ 10,516,394</u></u>	<u><u>\$ 10,954,142</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 12,363	\$ 18,498
Accrued interest	57,800	62,833
Current portion of contract debt payable	<u>371,000</u>	<u>371,000</u>
TOTAL CURRENT LIABILITIES	<u>441,163</u>	<u>452,331</u>
LONG-TERM LIABILITIES		
Contract debt payable, less current portion	<u>4,108,669</u>	<u>4,450,318</u>
TOTAL LIABILITIES	<u>4,549,832</u>	<u>4,902,649</u>
NET ASSETS		
Invested in capital assets, net of related debt	2,158,612	2,012,930
Restricted for debt service and other purposes	3,745,305	4,009,484
Unrestricted assets	<u>62,645</u>	<u>29,079</u>
TOTAL NET ASSETS	<u>5,966,562</u>	<u>6,051,493</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 10,516,394</u></u>	<u><u>\$ 10,954,142</u></u>

See Accompanying Notes to the Financial Statements

SOUTH COUNTY SEWER AND WATER AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
For the Years Ended March 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
REVENUES		
Charges for services	\$ 170,589	\$ 183,594
OPERATING EXPENSES		
Salaries and wages	44,215	50,605
Fringe benefits	9,714	10,044
Contracted services	68,805	91,332
Utilities	12,346	9,819
Supplies	3,430	3,732
Maintenance and repairs	18,668	7,073
Depreciation and amortization	198,500	186,595
TOTAL OPERATING EXPENSES	<u>355,678</u>	<u>359,200</u>
OPERATING LOSS	(185,089)	(175,606)
NON-OPERATING REVENUES		
Debt service fees	30,236	29,752
Administrative fee	4,974	11,500
Interest income on investments	61,111	36,164
Interest income on special assessments	94,594	116,259
Interest income on connection fee contracts	9,796	14,563
TOTAL NON-OPERATING REVENUES	<u>200,711</u>	<u>208,238</u>
NON-OPERATING EXPENSES		
Interest expense	(198,153)	(198,980)
Amortization	---	(5,177)
TOTAL NON-OPERATING EXPENSES	<u>(198,153)</u>	<u>(204,157)</u>
LOSS BEFORE CONTRIBUTIONS	(182,531)	(171,525)
Capital contributed	<u>97,600</u>	<u>497,800</u>
CHANGE IN NET ASSETS	(84,931)	326,275
Net assets at beginning of year	<u>6,051,493</u>	<u>5,725,218</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 5,966,562</u></u>	<u><u>\$ 6,051,493</u></u>

See Accompanying Notes to the Financial Statements

SOUTH COUNTY SEWER AND WATER AUTHORITY
STATEMENTS OF CASH FLOWS
For the Years Ended March 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from users	\$ 170,589	\$ 183,594
Cash payments to suppliers for goods and services	(109,385)	(116,997)
Cash payments to employees for services	(53,929)	(60,649)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>7,275</u>	<u>5,948</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Other non-operating revenues	35,211	41,252
Proceeds from connection fees	89,173	70,463
Proceeds from contracts with municipalities	129,568	251,845
Proceeds from contract debt issued	---	428,518
Principal paid on contract debt	(351,000)	(427,720)
Interest paid on contract debt	(191,335)	(219,037)
Acquisition and construction of capital assets	---	(582,834)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(288,383)</u>	<u>(437,513)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earned on investments and receivables	165,501	166,986
Net proceeds from (investments in) government obligations with maturities greater than 90 days or restricted for capital improvements or debt reduction	<u>143,038</u>	<u>281,975</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>308,539</u>	<u>448,961</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	27,431	17,396
Cash and cash equivalents at beginning of year	<u>47,577</u>	<u>30,181</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 75,008</u>	<u>\$ 47,577</u>

See Accompanying Notes to the Financial Statements

	<u>2007</u>	<u>2006</u>
SUPPLEMENTAL DISCLOSURES		
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (185,089)	\$ (175,606)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	198,500	186,595
Decrease in:		
Accounts payable	<u>(6,136)</u>	<u>(5,041)</u>
TOTAL CHANGES IN ASSETS AND LIABILITIES INCLUDED IN OPERATING RESULTS	<u>192,364</u>	<u>181,554</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 7,275</u></u>	<u><u>\$ 5,948</u></u>

SOUTH COUNTY SEWER AND WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended March 31, 2007 and 2006

NOTE A - Summary of Significant Accounting Policies

Authority Formation and Mission

The South County Sewer and Water Authority (the Authority) was established by the Townships of Brady and Pavilion and the Township and Village of Schoolcraft, Kalamazoo County, Michigan. The Authority was incorporated in May, 1997, under the provisions of Act 233, Public Acts of 1955, as amended. The Authority is governed by a board composed of representatives of each of the constituent municipalities. The Authority was formed to operate, maintain, administer and manage a sewage collection and disposal system pursuant to Act 185 Public Acts of 1957, as amended, for the benefit of constituent municipalities.

A nineteen-year bond issue totaling \$6,100,000 financed the cost of the sewer collection system and lines. The bonds were issued in December, 1998. The \$6,100,000 debt will be repaid with proceeds from a twenty-year special assessment roll on benefiting property owners, revenue from new connection fees, and from debt service fees.

Statement on Accounting Policies

The accounting policies of South County Sewer and Water Authority conform to generally accepted accounting principles as applicable to governments. The Authority applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principle Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails. The Authority has elected not to follow FASB pronouncements and APB opinions issued after November 30, 1989.

Effective April 1, 2004, the Authority adopted GASB 34, "Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments". The most significant change required by the adoption of GASB 34 was the reporting of net assets as shown in the accompanying Statements of Net Assets and the addition of the required supplementary information - Management's Discussion and Analysis. The Authority adopted GASB 40, "Deposits and Investment Risk Activities", for the fiscal years beginning April 1, 2005. GASB 40 affects the nature of the disclosures related to deposits and investment activities of the Authority.

Scope of Reporting Entity and Basis of Presentation

The financial statements of South County Sewer and Water Authority contain all the funds that are financially interdependent on the Authority's executive or legislative branches. The most significant manifestation in determining the reporting entity is financial interdependence. Other manifestations to be considered include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. Another criterion used to evaluate potential component units for inclusion or exclusion in a reporting entity is the existence of special financing relationships regardless of oversight responsibilities. The Authority does not have any potential component units. Based on these criteria, the Authority is considered a reporting unit and is not considered a component unit of the Townships.

SOUTH COUNTY SEWER AND WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended March 31, 2007 and 2006

NOTE A - Summary of Significant Accounting Policies (Continued)

Basis of Accounting

All activities of the Authority are accounted for in a single proprietary fund. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the statement of net assets. Net assets is divided by the following components: invested in capital assets-net of related debt, restricted for debt service and other purposes, and unrestricted.

Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. Activities of the Authority are accounted for using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when they are incurred. Operating activities include all revenues and expenses associated with sewer activities. Non-operating revenues and expenses relate primarily to financing and investing activities.

Use of Restricted Assets

Certain deposits and investments are restricted by contract and/or Township ordinance for debt service purposes, capital improvements, significant repairs and replacements and by Authority policy for future contingencies. Costs of capital improvements and significant repairs and replacements are funded first from restricted assets.

Fixed Assets

Fixed assets of the Authority are accounted for on a cost of services or "capital maintenance" measurement focus. Fixed assets are valued at cost. Donated fixed assets are stated at their fair market value on the date donated.

Depreciation of all exhaustible fixed assets is charged as an expense against operations. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets as follows: Sewer Lines - 40 years, Sewer Equipment - 7 years, and Office Equipment - 5 years.

Capitalized Interest

Interest costs on debt incurred to finance fixed asset additions is capitalized during the construction period. Interest is capitalized at the rate of the associated debt instrument based on the cost incurred on the related construction until such time as the sewer system is ready for service. The interest capitalized is added to the carrying cost of the sewer system.

SOUTH COUNTY SEWER AND WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended March 31, 2007 and 2006

NOTE A - Summary of Significant Accounting Policies (Continued)

Estimates

Preparation of financial statements in accordance with generally accepted accounting principles requires the use of estimates by management. Estimates are subject to change and, accordingly, actual results may differ from the estimates used in preparation of the accompanying financial statements. These financial statements include estimates primarily as to the depreciable lives and salvage values of fixed assets, and the current portion of contracts receivables.

Cash and Cash Equivalents

For purposes of the statements of cash flows, all highly liquid investments with a maturity of three months or less when purchased that are not restricted for capital additions or debt retirement are considered to be cash equivalents.

NOTE B - Cash, Deposits and Investments

The State of Michigan allows a political subdivision to authorize its treasurer or other chief financial officer to invest surplus funds belonging to and under the control of the entity into certain instruments described as follows: bonds and other direct obligations of the United States or an agency of the State of Michigan or its political subdivisions, or instrumentality of the United States; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank or savings and loan which is a member of the Federal Deposit Insurance Corporation or a credit union which is insured by the National Credit Union. The Authority may invest in commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase; in United States government or federal obligation repurchase agreements; in bankers' acceptances of United States banks; in mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan and SEC regulated; or in surplus funds investment pools.

Depositories actively used by the Authority during each of the years were: Kalamazoo County State Bank and Investment Centers of America, Inc. The Authority has not established policies to monitor and evaluate custodial credit risk. At year end, investments totaling approximately \$1,130,000 were held by one counterparty and were subject to custodial credit risk.

Balances at March 31 related to cash and cash equivalents and deposits (including certificates of deposit with greater than 90 day maturities at purchase) are detailed on the statements of net assets as follows:

	<u>2007</u>	<u>2006</u>
Cash and cash equivalents	\$ 75,008	\$ 47,577
Restricted assets (See Note D)		
Bank deposits and money market accounts	219,382	500,946
U.S. government and agency securities	<u>1,095,752</u>	<u>957,226</u>
TOTALS	<u>\$ 1,390,142</u>	<u>\$ 1,505,749</u>

SOUTH COUNTY SEWER AND WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended March 31, 2007 and 2006

NOTE B - Cash, Deposits and Investments (Continued)

Cash, deposits and U.S. government agency securities (including restricted assets) at March 31, as shown by carrying amount and bank balance and classified by categories of credit risk are itemized as follows:

	2007		2006	
	<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Cash and deposits				
FDIC insured	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000
Uninsured and uncollateralized	58,047	71,115	190,973	199,251
Money Market Mutual Funds				
Insured by SPIC	136,344	136,344	257,550	257,550
Federal Home Loan Bank and Federal National Mortgage Association				
Bonds				
SPIC insured	363,656	363,656	242,450	242,450
Uninsured	732,095	717,834	714,776	703,150
TOTALS	<u><u>\$ 1,390,142</u></u>	<u><u>\$ 1,388,949</u></u>	<u><u>\$ 1,505,749</u></u>	<u><u>\$ 1,502,401</u></u>

The Authority invests in Federated Capital Reserves (Fund) money market fund. The Fund invests in commercial paper and notes, variable rate instruments, overnight securities, and bank instruments. Approximately 95% of the funds investments credit quality is in the first tier and approximately 5% are in the second tier. The money market investments and a portion of the U.S. government agency securities are insured by the SPIC, as shown in the schedule above. The SPIC is a private insurer and is not a government insurance agency. The Authority's uninsured cash and deposits are held with Kalamazoo County State Bank.

The Authority's investment in U.S. government agency securities totaled \$1,095,752 and \$957,226 at March 31, 2007 and 2006, respectively. At March 31, 2007, approximately 17% of the bonds matured within 1 month, approximately 21% of the bonds matured within 2 to 6 months, approximately 8% of the bonds matured within 7 to 12 months, and approximately 54% of the bonds matured between 1 and 5 years.

NOTE C – Contracts Receivable and Other Contracts Receivable

Contracts receivable from municipalities and Developers represent balances from special assessment rolls. The rolls will be collected over a twenty-year period, plus interest at 1% over the Authority's cost of funds on the unpaid balance. Individual residents and businesses are legally responsible for payment of the fees. This disperses the credit risk over approximately 475 parcels in the geographic area. The assessments become priority liens on each of the assessed parcels. Additionally, unpaid portions of assessments due become tax liens due and payable in the same manner as property taxes. The amount shown under current assets represents the principal portion of special assessments estimated to be collected in the current year. Payment of the Village of Vicksburg assessment is deferred until 2010 and is accruing interest that is added to principal.

SOUTH COUNTY SEWER AND WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended March 31, 2007 and 2006

NOTE C – Contracts Receivable and Other Contracts Receivable (Continued)

Contracts receivable at March 31, consists of the following:

	Current Portion		Total	
	2007	2006	2007	2006
Brady Township	\$ 153,000	\$ 162,000	\$ 1,520,375	\$ 1,592,086
Pavilion Township	60,000	33,000	298,669	354,865
Developers	27,000	27,000	287,360	294,080
Village of Vicksburg	---	---	123,357	118,297
	<u>\$ 240,000</u>	<u>\$ 222,000</u>	<u>2,229,761</u>	<u>2,359,328</u>
Less current portion			<u>(240,000)</u>	<u>(222,000)</u>
TOTALS			<u>\$ 1,989,761</u>	<u>\$ 2,137,328</u>

Other contracts receivable (connection fees) consist of customers hooking up to the system who are not part of the special assessments. Contract terms vary and include interest, generally at 5.5%. The Authority sets the interest rate annually based on the local interest rate market. Other contracts receivable are secured by property liens on the related parcels. The amount shown under current assets represents the principal portion of other contracts expected to be collected in the current year.

Other contracts receivable at March 31, consists of the following:

	Current Portion		Total	
	2007	2006	2007	2006
Connection fees	<u>\$ 20,000</u>	<u>\$ 25,000</u>	\$ 200,411	\$ 191,984
Less current portion			<u>(20,000)</u>	<u>(25,000)</u>
TOTALS			<u>\$ 180,411</u>	<u>\$ 166,984</u>

SOUTH COUNTY SEWER AND WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended March 31, 2007 and 2006

NOTE D - Restricted Assets

Deposits and investments at March 31, are restricted for the following purposes:

	<u>2007</u>	<u>2006</u>
Reserved for payment on contract debt issued December 1, 1998	\$ 1,211,756	\$ 1,375,343
Reserved for payment on Sprinkle Road debt issued August 8, 2005	23,378	2,829
Reserved for capital improvements	<u>80,000</u>	<u>80,000</u>
TOTAL RESTRICTED DEPOSITS AND INVESTMENTS	<u><u>\$ 1,315,134</u></u>	<u><u>\$ 1,458,172</u></u>

The board determines the reserve for capital improvements annually. Connection fee receipts, to the extent they are not needed for current debt service requirements, are deemed available for capital improvements. The reserve for capital improvements is also provided to cover the Authorities' exposure related to the self-insurance against risk of loss from damage that may be incurred by users of the sewer system from sewer operations/ backups and construction. See Note I.

NOTE E - Property and Equipment

The property and equipment of the Authority, together with changes therein for the year ended March 31, 2007, are detailed as follows:

	<u>Cost</u>			<u>Balances March 31, 2007</u>
	<u>Balances April 1, 2006</u>	<u>Additions</u>	<u>Disposals</u>	
Office equipment	\$ 9,152	\$ ---	\$ ---	\$ 9,152
Sewer system	7,849,954	---	---	7,849,954
Sewer equipment	<u>2,434</u>	<u>---</u>	<u>---</u>	<u>2,434</u>
Total Property and Equipment	\$ 7,861,540	\$ ---	\$ ---	\$ 7,861,540

SOUTH COUNTY SEWER AND WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended March 31, 2007 and 2006

NOTE E - Property and Equipment (Continued)

	Accumulated Depreciation			Balances March 31, 2007
	Balances April 1, 2006	Additions	Disposals	
Office equipment	\$ 4,826	\$ 338	---	\$ 5,164
Sewer system	992,027	197,814	---	1,189,841
Sewer equipment	1,478	348	---	1,826
Total Accumulated Depreciation	998,331	198,500	---	1,196,831
Net Property and Equipment	<u>\$ 6,863,209</u>	<u>\$ (198,500)</u>	<u>\$ ---</u>	<u>\$ 6,664,709</u>

NOTE F - Changes in Long-term Debt

The following is a summary of debt transactions of the Authority for the years ended March 31, 2007 and 2006:

	Sewer Contract Debt		
	Kalamazoo County	Other	Total
DEBT PAYABLE, APRIL 1, 2005	\$ 4,750,000	\$ 70,520	\$ 4,820,520
Debt issued	---	428,518	428,518
Debt retired	<u>(350,000)</u>	<u>(77,720)</u>	<u>(427,720)</u>
DEBT PAYABLE, MARCH 31, 2006	4,400,000	421,318	4,821,318
Debt issued	---	9,351	9,351
Debt retired	<u>(350,000)</u>	<u>(1,000)</u>	<u>(351,000)</u>
DEBT PAYABLE, MARCH 31, 2007	<u>\$ 4,050,000</u>	<u>\$ 429,669</u>	<u>\$ 4,479,669</u>

SOUTH COUNTY SEWER AND WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended March 31, 2007 and 2006

NOTE F - Changes in Long-term Debt (Continued)

The contract debt payable at March 31, consists of the following issues:

	<u>2007</u>	<u>2006</u>
\$6,100,000 Kalamazoo County General Obligation Bonds dated December 1, 1998, due in annual principal installments ranging from \$325,000 to \$400,000 through June 1, 2017, plus interest payable semi-annually on June 1 and December 1 of each year at 4.15% to 4.30%.	\$ 4,050,000	\$ 4,400,000
\$215,800 Pavilion Township Installment Purchase Agreement dated August 8, 2005, due in annual installments of principal and interest each April 1 through April 2020, interest rate of 4.8%, secured by Special Assessment	214,800	215,800
\$212,718 Pavilion Township Sewer Fund Loan dated September 14, 2005, payable from special assessment and new connections to Sprinkle Road Sewer, interest accrues at Authority's cost of funds (currently 4.3%), interest is payable annually, principal is payable when applicable special assessment or connection fees are collected	214,869	205,518
	4,479,669	4,821,318
Less current maturities	(371,000)	(371,000)
TOTALS	<u><u>\$ 4,108,669</u></u>	<u><u>\$ 4,450,318</u></u>

The minimum annual debt service requirements, including interest, for long-term debt outstanding as of March 31, 2007 are as follows:

<u>Years Ending March 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2007	\$ 371,000	\$ 186,012	\$ 557,012
2008	371,000	170,004	541,004
2009	371,000	154,258	525,258
2010	406,800	138,600	545,400
2011	431,000	120,424	551,424
2012-2016	2,099,000	321,642	2,420,642
2017-2021	429,869	10,469	440,338
TOTALS	<u><u>\$ 4,479,669</u></u>	<u><u>\$ 1,101,409</u></u>	<u><u>\$ 5,581,078</u></u>

SOUTH COUNTY SEWER AND WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended March 31, 2007 and 2006

NOTE F - Changes in Long-term Debt (Continued)

The Pavilion Township Sewer Fund debt of \$214,869 is payable from a special assessment and new connections to the Sprinkle Road extension. The expected future maturities of this debt have been reported based on the expected payments of the related special assessment without considering future connections. Should the proceeds from the special assessments in a given year be less than the required interest payment, accrued and unpaid interest is added to the note annually.

For the years ended March 31, 2007 and 2006, the Authority paid interest costs of \$191,335 and \$219,037, respectively. The Authority did not capitalize any interest charges during the years ended March 31, 2007 and 2006.

NOTE G - Retirement Plan

The Authority maintains a Simple IRA Plan, which allows employees to contribute annually up to the maximum amount allowed per the Internal Revenue Code. The Authority is required to make a contribution to the plan annually, as defined in the plan document. Contributions to the plan totaled \$1,377 and \$1,329 for the years ended March 31, 2007 and 2006, respectively.

NOTE H - Non-cash Activities

For the year ended March 31, the Authority had the following non-cash activity:

	<u>2007</u>	<u>2006</u>
Assessment rolls added	<u>\$ ---</u>	<u>\$ 415,800</u>
Connection fee contracts added	<u>\$ 97,600</u>	<u>\$ 82,000</u>
Accrued and unpaid interest added to the principal balance of notes payable	<u>\$ 9,351</u>	<u>\$ ---</u>

NOTE I – Insurable Risk

The Authority, in the normal operation of its activities, has exposure for damage to residential and commercial property and personal injury resulting from the operation or construction of its sewer system. The Authority Board has elected to self-insure against this risk. The Authority Board believes that funds accumulated and restricted for significant replacements, as disclosed in Note D, are adequate to cover the associated risk.

SUPPLEMENTAL INFORMATION

SOUTH COUNTY SEWER AND WATER AUTHORITY
SCHEDULE OF OPERATING EXPENSES COMPARED TO BUDGET
For the Year Ended March 31, 2007
(Comparative Actual Amounts for the Year Ended March 31, 2006)

	2007		Variance –	2006
	Budget	Actual	Favorable (Unfavorable)	Actual
Salaries and wages	\$ 52,797	\$ 44,215	\$ 8,582	\$ 50,605
Fringe benefits:				
Social security	3,360	3,625	(265)	3,975
Insurance	4,925	4,713	212	4,740
Retirement	1,377	1,377	---	1,329
	<u>9,662</u>	<u>9,715</u>	<u>(53)</u>	<u>10,044</u>
Contracted services:				
Insurance/workman's compensation	7,000	6,214	786	6,442
Contracted services	23,100	20,553	2,547	24,965
Treatment charges	39,000	31,804	7,196	51,149
Engineering	1,500	1,882	(382)	704
Publications/ printing	210	216	(6)	90
Audit	4,700	4,200	500	3,900
Legal	1,250	628	622	367
Mileage/travel/entertainment	750	312	438	380
Miss Dig fees	400	386	14	379
Rent	2,400	2,200	200	2,400
Bank fees	100	40	60	47
Alarm system	600	331	269	410
Education and subscriptions	500	39	461	99
	<u>81,510</u>	<u>68,805</u>	<u>12,705</u>	<u>91,332</u>
Utilities:				
Electric and gas	10,000	10,832	(832)	8,378
Telephone	1,700	1,514	186	1,441
	<u>11,700</u>	<u>12,346</u>	<u>(646)</u>	<u>9,819</u>
Supplies:				
Postage	1,500	1,329	171	1,296
Office	2,200	2,101	99	2,436
	<u>3,700</u>	<u>3,430</u>	<u>270</u>	<u>3,732</u>
Maintenance and repairs:				
General maintenance	1,000	2,004	(1,004)	3,312
Repairs and maintenance reimbursement	3,000	16,664	(13,664)	3,761
	<u>4,000</u>	<u>18,668</u>	<u>(14,668)</u>	<u>7,073</u>
Miscellaneous	584	---	584	---
TOTALS, EXCLUDING DEPRECIATION	<u><u>\$ 163,953</u></u>	<u><u>\$ 157,179</u></u>	<u><u>\$ 6,774</u></u>	<u><u>\$ 172,605</u></u>

See Accompanying Independent Auditors' Report

SOUTH COUNTY SEWER AND WATER AUTHORITY
SCHEDULE OF PRINCIPAL AND INTEREST PAYMENTS
\$6,100,000 KALAMAZOO COUNTY GENERAL OBLIGATION BONDS
DATED DECEMBER 1, 1998
For the Year Ended March 31, 2007

Years Ending March 31,	Rate	Principal June 1	Interest		Totals
			June 1	December 1	
2008	4.30	\$ 350,000	\$ 86,725	\$ 79,200	\$ 515,925
2009	4.30	350,000	79,200	71,675	500,875
2010	4.15	350,000	71,675	64,412	486,087
2011	4.25	350,000	64,412	56,975	471,387
2012	4.30	375,000	56,975	48,913	480,888
2013	4.30	375,000	48,912	40,850	464,762
2014	4.30	375,000	40,850	32,788	448,638
2015	4.30	375,000	32,788	24,725	432,513
2016	4.30	375,000	24,725	16,662	416,387
2017	4.30	375,000	16,663	8,600	400,263
2018	4.30	400,000	8,600	---	408,600
TOTALS		<u>\$ 4,050,000</u>	<u>\$ 531,525</u>	<u>\$ 444,800</u>	<u>\$ 5,026,325</u>

See Accompanying Independent Auditors' Report

**SOUTH COUNTY SEWER AND WATER AUTHORITY
SCHEDULE OF PRINCIPAL AND INTEREST PAYMENTS
PAVILION TOWNSHIP INSTALLMENT PURCHASE AGREEMENT
DATED AUGUST 8, 2005
For the Year Ended March 31, 2007**

<u>Years Ending March 31,</u>	<u>Rate</u>	<u>Principal March 31</u>	<u>Interest March 31</u>	<u>Totals</u>
2008	4.80	\$ 1,000	\$ 10,310	\$ 11,310
2009	4.80	1,000	10,262	11,262
2010	4.80	1,000	10,214	11,214
2011	4.80	36,800	10,166	46,966
2012	4.80	36,000	8,400	44,400
2013	4.80	36,000	6,672	42,672
2014	4.80	37,000	4,944	41,944
2015	4.80	37,000	3,168	40,168
2016	4.80	7,000	1,392	8,392
2017	4.80	7,000	1,056	8,056
2018	4.80	7,000	720	7,720
2019	4.80	6,000	384	6,384
2020	4.80	2,000	96	2,096
TOTALS		<u>\$ 214,800</u>	<u>\$ 67,784</u>	<u>\$ 282,584</u>

See Accompanying Independent Auditors' Report

**SOUTH COUNTY SEWER AND WATER AUTHORITY
SCHEDULE OF PRINCIPAL AND INTEREST PAYMENTS
PAVILION TOWNSHIP SEWER FUND LOAN
DATED SEPTEMBER 14, 2005
For the Year Ended March 31, 2007**

<u>Years Ending March 31,</u>	<u>Rate</u>	<u>Principal* March 31</u>	<u>Interest March 31</u>	<u>Totals</u>
2008	4.30	\$ 20,000	\$ 9,777	\$ 29,777
2009	4.30	20,000	8,867	28,867
2010	4.30	20,000	7,957	27,957
2011	4.30	20,000	7,047	27,047
2012	4.30	20,000	6,137	26,137
2013	4.30	20,000	5,169	25,169
2014	4.30	20,000	4,269	24,269
2015	4.30	20,000	3,369	23,369
2016	4.30	20,000	2,469	22,469
2017	4.30	20,000	1,569	21,569
2018	4.30	<u>14,869</u>	<u>669</u>	<u>15,538</u>
TOTALS		<u>\$ 214,869</u>	<u>\$ 57,299</u>	<u>\$ 272,168</u>

* Interest is payable annually. Principal is payable as payments are made on a special assessment to the Sprinkle Road Sewer and as new connections (not part of the special assessment district) are made to the Sprinkle Road Sewer Extension.

SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Commissioners and
General Manager of South County
Sewer & Water Authority

In planning and performing our audit of the financial statements South County Sewer & Water Authority for the year ended March 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered South County Sewer & Water Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control

Separation of duties

Due to the small size of the Authority's office staff (two personnel), separation of duties is limited. The Office Manager has access to assets, recording of the assets and reconciliation functions. The Director initiates and authorizes all significant transactions. As a result, the risk of loss, error, or irregularities of assets increases. We recommend that the Authority Commissioners review key financial reports and reconciliations periodically for unusual matters. In addition, fidelity bonds as discussed below should adequately cover all personnel with access to accounting records and assets of the Authority.


Collateralizing bank balances in excess of \$100,000

The Authority's cash accounts exceeded FDIC insurance by approximately \$71,000 at March 31, 2007. Additionally, at March 31, 2007, the Authority maintains investments in money market accounts (approximately \$136,000) and government backed bonds (approximately \$1,095,000). The investments are not governmentally insured but are privately insured for up to \$500,000. We recommend that the Authority monitor the financial condition of the bank, investments, and the investment company.

Employee bonding

The Authority has bonded its employees and Board members for \$100,000. The Authority has cash and highly liquid assets well in excess of \$1,000,000. We recommend that the Authority increase its bond coverage.

This communication is intended solely for the information and use of the Board of Commissioners and Management of South County Sewer & Water Authority, and is not intended to be and should not be used by anyone other than these specified parties.


Seber Tans, PLC
September 14, 2007